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Ecuador

Grain and Feed

Annual

2007

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Report Highlights:

Ecuador's wheat production remains stable and low. Imports have increased despite higher prices, and could be explained by increased consumption of animal feed. Corn production is expected to increase due to high world prices, and rice is expected to remain virtually constant. Ecuador might need to import rice in 2007 after record exports to Colombia in 2006.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Quito [EC1]
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Executive Summary

Wheat production in Ecuador remains stagnant at 3,000 MT on 5,000 harvested hectares. Total imports (TY) in 2006 set an all-time record of 553,000 MT. Rising imports are explained by sharp decreases in production and by growing consumption for both food and feed. The United States continues to lose its market share in Ecuador. On average, U.S. wheat exports to Ecuador in the period 1997-2006 were 162,000 MT/year, while Canada exported 235,000 MT/year (or 45% more).

Corn production is expected to grow in MY 2007 due to a key factor: high world prices. This market circumstance provides an opportunity for local farmers to grow more corn, as they know that the government will promote a high absorption price for the 2007 harvest. Overall annual consumption is expected to reach 830,000 MT due to the rapid growth of the feed meal compound industry and increased production of poultry, eggs, pork and shrimp. Post projects corn imports to fall to 430,000 MT in MY 2007 (a 4 percent decrease from the previous MY). In CY 2006, total corn imports reached a record quantity of 483,000 MT, the majority from the United States. Exports to Colombia are to remain constant at 36,000 MT/year, but are at risk with the upcoming U.S.-Colombia Trade Promotion Agreement.

Rice production is expected to increase, by 3 percent, to 495,000 MT in MY 2007. The slight increase is expected to make up for the very low stocks at the end of 2006 that resulted from record exports to Colombia of 144,000 MT throughout that year. Current low stocks have pushed the farmer price up to \$396/MT and are expected to open a window for imports in 2007.

WHEAT

PSD Table

Country Ecuador

Commodity Wheat (1000 HA)(1000 MT)(MT/HA)

	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007
Area Harvested	10	10	10	5	5	5	0	0	5
Beginning Stocks	57	80	57	85	77	14	33	70	26
Production	6	6	6	3	3	3	0	0	3
MY Imports	527	456	456	450	460	520	0	0	515
TY Imports	527	456	466	450	460	553	0	0	540
TY Imp. from U.S.	128	150	128	0	160	0	0	0	0
Total Supply	590	542	519	538	540	537	33	70	544
MY Exports	1	0	1	5	0	1	0	0	1
TY Exports	1	0	1	5	0	1	0	0	1
Feed Consumption	40	40	40	40	45	40	0	0	50
FSI Consumption	464	425	464	460	425	470	0	0	475
Total Consumption	504	465	504	500	470	510	0	0	525
Ending Stocks	85	77	14	33	70	26	0	0	18
Total Distribution	590	542	519	538	540	537	0	0	544
Yield	0.6	0.6	0.6	0.6	0.6	0.6	0	0	0.6

Import Trade Matrix

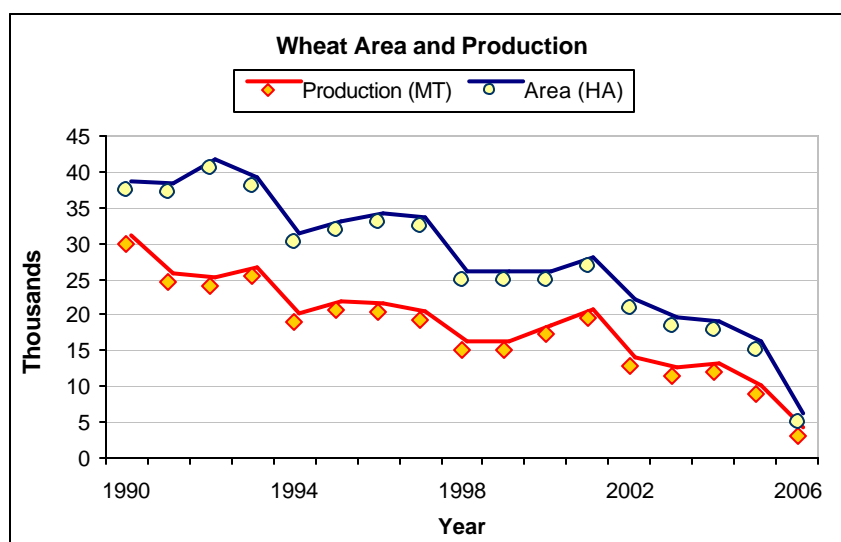
Country Ecuador

Commodity Wheat

Time Period	Jan-Dec	Units:	MT
Imports for:	2005		2006
U.S.	138592	U.S.	97817
Others		Others	
Canada	297755	Canada	354588
Argentina	30382	Argentina	56829
		Ukraine	25020
Total for Others	0		0
Others not Listed			19735
Grand Total	466729		553989

Production

Ecuador produces very small quantities of wheat. Our estimation for MY 2007 is 3,000 MT in 5,000 harvested hectares, which represents a steep reduction from 30,000 MT and 37,000 harvested hectares in 1990. In the last 17 years, farmers in areas fit for wheat production have replaced it with more profitable crops, such as white corn, legumes, fruits and tubers. In Ecuador, wheat is planted in the central and northern highlands under geographic and weather conditions that are adverse for large-scale wheat production. Rudimentary techniques, lack of seeds and other basics such as irrigation result in yields averaging 0.6 MT per hectare, which are very low compared to a U.S. general average yield of 2.6 MT per hectare in 2006¹. The final product is high in price, low in quality and not suitable for milling. Most of it is consumed on the farm, and a very small portion is sold to animal feed industries.

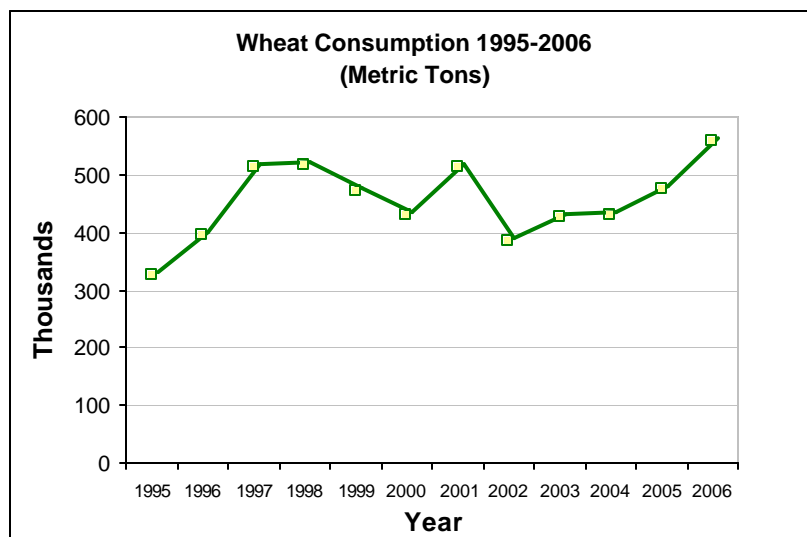


Consumption

Wheat is mostly used in Ecuador to produce flour suitable for bread and pasta, and its consumption is fairly stable despite fluctuations in the international markets. Ecuador will demand approximately 525,000 MT of wheat in MY 2007. In the period 2002-2006, the demand for wheat has experienced an average 10% annual growth, which is explained by Ecuador's nutritional habits (people eat bread twice a day and consider pasta as a staple), and by the government's efforts to broaden school feeding programs that currently include over one million children. Per capita wheat consumption has also grown considerably, from 30 kilograms/year in 2002 to nearly 40 kilograms/year in 2006.

Another factor increasing the demand is a growing consumption of wheat for feed. Ecuador is expected to direct at least 50,000 MT of wheat for feed (mainly for aquaculture and livestock) in MY 2007. Feed for shrimp is the main destination, since shrimp exports continue to increase. Total shrimp exports in 2006 reached 108,000 MT (48% to the U.S.), with an average annual growth rate of 20% in the past four years. In addition, soaring corn prices are driving feed makers to replace corn with wheat in their feed formulations for livestock and pool-bred fish such as tilapia and trout. Ecuador's tilapia exports have remained constant at 3,000 to 5,000 MT per year in the past six years.

¹ USDA/NASS Quick Stats, <http://www.nass.usda.gov/QuickStats/>



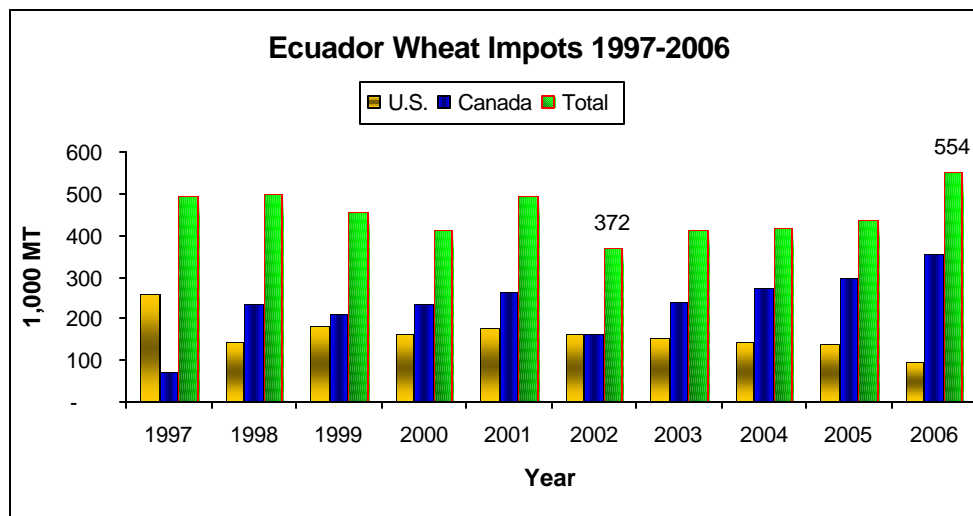
Trade

Ecuador's wheat imports are expected to remain constant in MY 2007 at 515,000 MT. This forecast is 96,000 MT over the average of the past 10 years and less than 1% lower than imports in MY 2006. Total imports (TY) in 2006, however, set an all-time record of 553,000 MT. Rising imports are explained by sharp decreases in production and by growing consumption for both food and feed.

The United States continues to lose its market share in Ecuador. On average, U.S. wheat exports to Ecuador in the period 1997-2006 were 162,000 MT/year, while Canada exported 235,000 MT/year (or 45% more).

Since Ecuador basically uses wheat for bread and pasta, imports of hard wheat are, on average, higher than soft wheat by a 7 to 1 ratio (5 to 1 in 2006). According to buyers, hard Canadian wheat is more reliable for milling and lower in price than comparable U.S. wheat. For the same or lower price, Canada ships wheat with higher protein and gluten, as well as lower dockage, thereby explaining Ecuador's preference for Canadian wheat.

However, the United States has maintained a higher share over other suppliers such as Argentina for two reasons: increased soft wheat sales and lower shipping costs. Several wheat millers in Ecuador are using soft wheat to mix with high-protein wheat to make flour and also to make crackers. This is the result of a promotional program carried out by the U.S. Wheat Associates in the past few years to gain more markets for U.S. soft wheat varieties.



Policy

Wheat is a marker product under the Andean Price Band System (APBS), with basic duty of 10 percent plus an additional variable levy, depending on international reference prices. In July of 2001, the Government of Ecuador phased-out wheat from the price band system as part of its WTO commitments. However, Ecuador re-included wheat in the price band in August of 2003 arguing an obligation to do so by Andean Community commitments. For the period April 2006-March 2007 floor and ceiling prices were set at \$173 and \$191 respectively. The variable levy in 2006 ranged between -7% and -10% because of high world prices, thus average final APBS tariffs on wheat were 0% for most of 2006.

In addition, Ecuador has bilateral trade agreements with Peru and Chile, and multilateral trade agreements with ALADI (Latin American Association of Integration). In 2004, Ecuador reached a tariff liberalization agreement with Mercosur (Argentina, Brazil, Paraguay and Uruguay). Implementation of these agreements in Ecuador started in April 2005. Wheat has special treatment under the agreements with Mercosur, thus tariff preferences are granted over the total duty, which is comprised of the ad-valorem (basic) duty plus the Andean Price Band variable levy. In 2007, trade partners have the following tariff reductions:

HTS	Product	Paraguay/4	Uruguay/2	Argentina/3	Brazil/3	Mexico/1	U.S. and Canada
10011090	Wheat, durum	33%	98%	15%	15%	8%	0%
10019020	Wheat, other	33%	98%	15%	15%	8%	0%

/1 Under ALADI.

/2 Uruguay will have reached zero tariffs on wheat by January 1, 2009

/3 Argentina and Brazil will have reached zero tariffs on wheat by January 1, 2018

/4 Paraguay will have reached zero tariffs on wheat by January 1, 2015.

CORN

PSD Table

Country Ecuador

Commodity Corn

(1000 HA)(1000 MT)(MT/HA)

	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Harvested	110	110	110	118	118	118	0	0	128
Beginning Stocks	134	60	134	139	62	139	109	52	109
Production	340	340	340	365	365	365	0	0	400
MY Imports	450	417	450	450	430	450	0	0	430
TY Imports	450	417	450	450	430	483	0	0	470
TY Imp. from U.S.	338	300	338	0	310	404	0	0	360
Total Supply	924	817	924	954	857	954	109	52	939
MY Exports	35	35	35	45	45	45	0	0	40
TY Exports	35	35	33	45	45	36	0	0	35
Feed Consumption	700	680	700	725	710	725	0	0	750
FSI Consumption	50	40	50	75	50	75	0	0	80
Total Consumption	750	720	750	800	760	800	0	0	830
Ending Stocks	139	62	139	109	52	109	0	0	69
Total Distribution	924	817	924	954	857	954	0	0	939
Yield	3.0909	3.09091	3.09091	3.0932	3.09322	3.09322	0	0	3.125

Import Trade Matrix

Country Ecuador

Commodity Corn

Time Period	Jan-Dec	Units:	MT
Imports for:	2005		2006
U.S.	268933	U.S.	403884
Others		Others	
Argentina	121543	Argentina	79435
Uruguay	27390		
Total for Others	148933		79435
Others not Listed	0		0
Grand Total	417866		483319

Export Trade Matrix

Country Ecuador

Commodity Corn

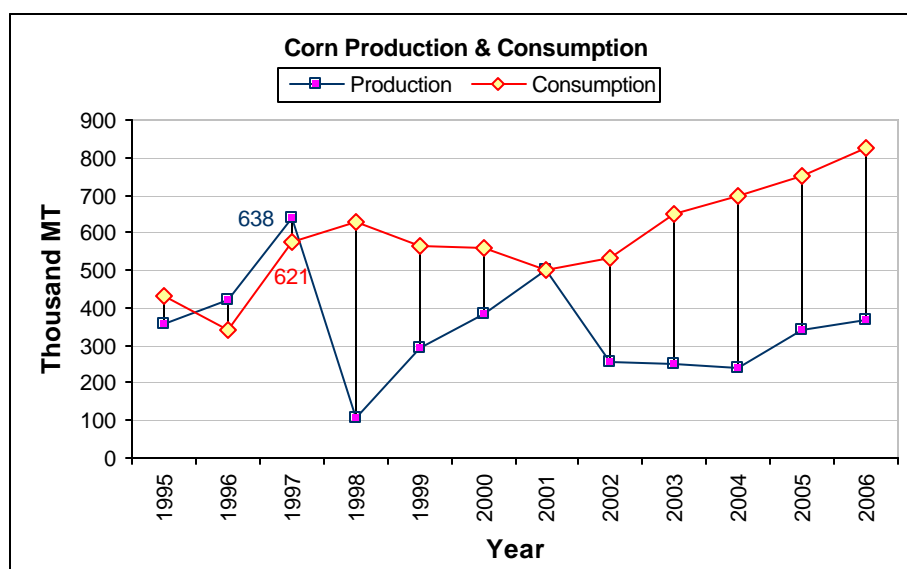
Time Period	Jan-Dec	Units:	MT
Exports for:	2005		2006
U.S.	92	U.S.	5
Others		Others	
Colombia	32739	Colombia	36152
Total for Others	32739		36152
Others not Listed	14		20
Grand Total	32845		36177

Production

Corn production is expected to increase in MY 2007 by 10 percent to 400,000 MT with 10,000 more harvested hectares. This would represent the third highest production level in the last 10 years (In 1997 and 2001, production reached 638,000 and 501,000 MT, respectively). This growth projection is explained by continued increases in world corn prices, which are already being seen by growers in Ecuador as an opportunity to sell more corn locally.

Since 1995, corn production has shown a very unstable behavior with a record high of 638,000 MT in 1997 and a record low of 107,000 MT the following year. However, in the last three years, production has shown a sustained growth that can be explained by two key factors: the government's effort to require purchase of local production before imports are allowed and a guaranteed purchase price at least equal to the corn CIF import cost. These programs will continue to be enforced by the current Government of Ecuador, and the Ministry of Agriculture has pledged additional support with credits and other forms of assistance.

Yields remain low with an average of 3 MT per hectare, as compared to the U.S. average yield of 9.4 MT per hectare². This is because the winter planting and harvest season (80 percent of the annual production) is highly dependent on rainfalls during November through January. If rainfalls are too scarce or too abundant, large cultivated areas are lost to droughts or floods in the lower altitude production areas. Another factor is the lack of irrigation systems and very limited access to credit for inputs such as certified seeds and agrochemicals. A number of initiatives by the poultry industry are supporting efforts to improve yields by providing certified seeds, extension services and inputs to a growing number of farmers in return for the purchase of their production at market prices. In the long run, this will support the improvement of corn production yields.

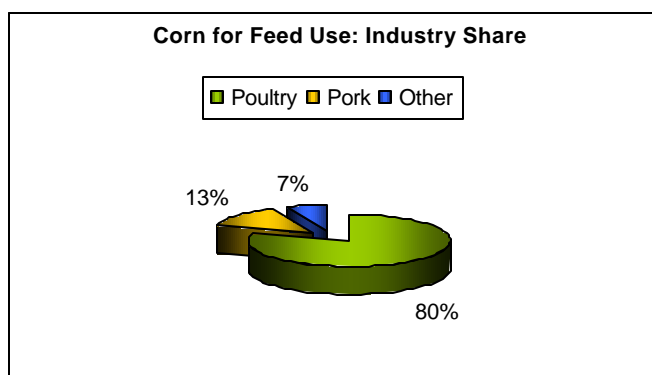


² USDA/NASS Quick Stats, <http://www.nass.usda.gov/QuickStats/>

Consumption

Ecuador's corn consumption continues its sustained 10 percent average growth rate since 2002, and is expected to reach 830,000 MT in MY 2007 (90 percent of which is used by the animal feed industry). The increased demand is explained by the feed industry's 6 percent annual growth rate, along with an important annual growth of the poultry and egg industry (8 percent) and a higher per capita consumption of poultry meat in Ecuador (20 Kg/year). Feed meal production had an important growth in the past 12 years, from 576,000 MT in 1995 to 1.7 million MT in 2006.

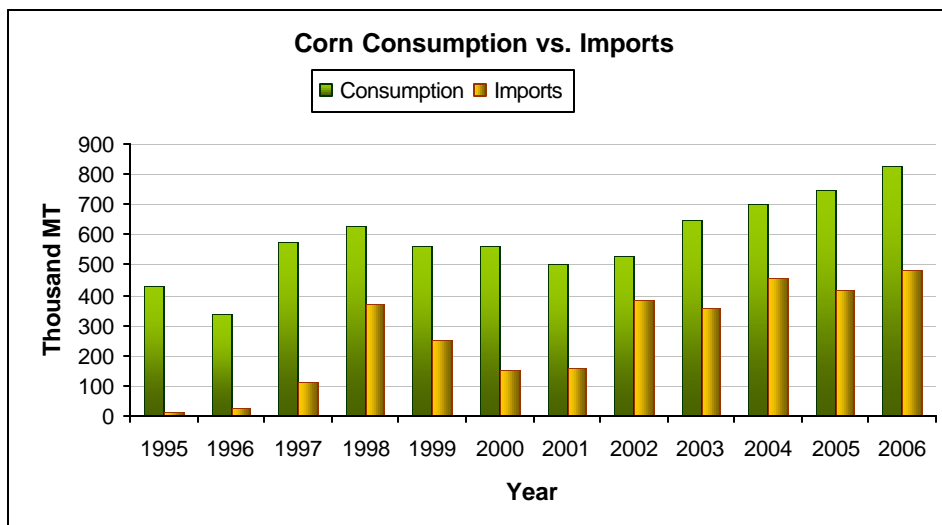
The poultry industry, with a total population of 125 million chickens per year, and an annual sales growth rate ranging from 5-10 percent, consumes 80 percent of the feed corn every year. This industry produces 190,000 MT of poultry meat, and approximately 72,000 MT of eggs per year. Another sector showing interesting growth is pork, with a population of 1.7 million pigs per year, and which now consumes 100,000 MT/year. Other industries demanding corn for feed are shrimp (20 percent exports growth 2000-2006) and dairy cattle. A number of feed industries report up to 25 percent cattle feed sales growth.



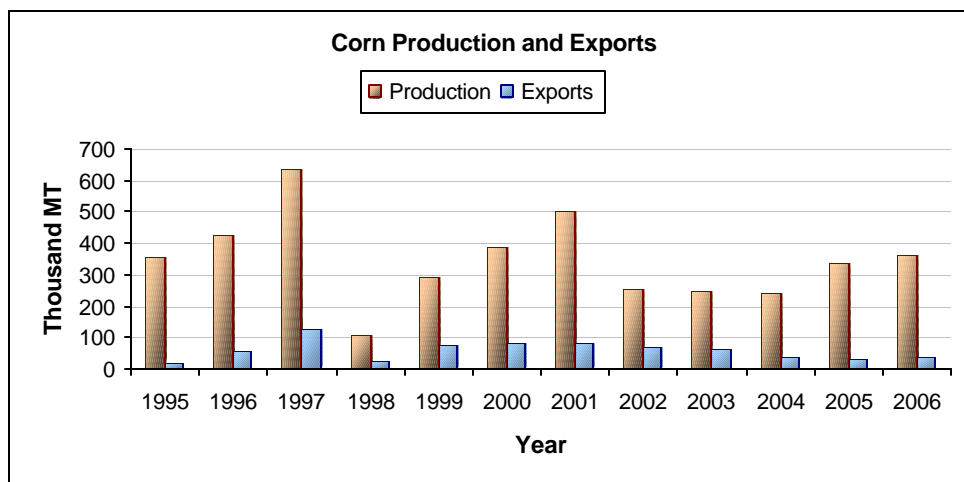
Trade

In 2006, total corn imports reached a record of 483,000 MT. Approximately 83 percent of these imports originated in the United States, with the remainder coming from Argentina. Ecuador's feed industry prefers U.S. corn to others because of its lower foreign material content, faster delivery to Ecuadorian ports and lower transportation costs. Imports for MY 2007 are expected to show a 4 percent decrease to 430,000 MT (from 450,000 MT in MY 2006), derived from higher world prices and increased production in Ecuador.

Corn imports represent a high percentage of Ecuador's total consumption. In the period 2000-2006, Ecuador imported, on average, 52 percent of its corn needs with a minimum of 150,000 MT and a maximum of 483,000 MT. The animal feed industry considers that Ecuadorian corn is of better quality than imported corn. However, Ecuador is obliged to import large quantities of this product for two reasons: the local product is more expensive than its imported counterpart and Ecuador's production does not meet demand. In fact, corn production registers a deficit since 1997, and the demand is not likely to be met in the near future. Imports will continue with variations depending on local production and prices.



Ecuador exports corn to Colombia in order to satisfy that country’s southern border demand of corn for human consumption. Most exports are made by land, in trucks, and at high prices usually paid to farmers in cash. In the past ten years, exports averaged 64,000 MT and have taken place during the peak of the winter harvest season (May-June). Ecuadorian corn is used in Colombia to make “arepas” due to its suitability for such purpose. Total year exports to Colombia in 2006 were 36,000 MT. Exports during MY 2007 and the near future are estimated at the same level. However, these are at risk in the long term if the Colombian market opens to U.S. corn as part of the upcoming U.S.-Colombia Trade Promotion Agreement.



Policy

Corn imports are assessed 15 percent ad-valorem duty (over CIF), plus a variable levy applied under the Andean Price Band System (APBS). Under this system, the ad-valorem tariffs are adjusted (increased or reduced) depending on the correlation between international reference prices at the time of import, and set floor and ceiling prices. The

Andean Community set floor and ceiling prices of corn for the period April 2006 to March 2007 at \$130 and \$142 per MT. Upon accession to the WTO, Ecuador bound its tariffs (including the additional APBS levy) for corn at 45 percent. In addition, Ecuador maintains a worldwide TRQ of 19,600 MT of corn at a set tariff of 25 percent. This TRQ is filled when international corn prices drop and the APBS increases corn duties beyond 25 percent (15 percent ad-valorem + a variable levy over 10 percent).

The Government of Ecuador does not provide any formal subsidy or economic assistance program to promote yellow corn production. However, the Ministry of Agriculture usually encourages corn production by implementing absorption programs and import bans during the corn harvest season. These absorption programs guarantee the complete purchase of local production at high prices. During 2006, the Ministry of Agriculture maintained an absorption program by which the feed industry was obligated to purchase some 330,000 MT of local corn at \$180 per MT. A "Consultative Committee" that has the participation of the feed industry, the official sector and a majority of producers makes these decisions. The consultative committee meeting to fix prices for the 2007 harvest has not met yet, but farmers expect to receive \$220 per MT due to high world prices.

Under the CAN-Mercosur trade talks, Ecuador has negotiated bilateral tariff reductions with Argentina, Brazil, Paraguay and Uruguay. These tariff reductions apply only to the ad-valorem duties as the Andean Price Band System is maintained for corn. The Ecuador–Mercosur agreement entered into effect in Ecuador on April 1, 2005 and has liberalization schedules of 14 years for most cereals, including corn, as follows:

Country of Origin	First Liberalization	Full Liberalization
Argentina	3 year grace period 2005-2008, 10% reduction starting in January 2008.	In 2018, 100% liberalization
Brazil	In 2007: 10% reduction until 2008.	Yearly reduction for 8 years starting in 2005 and 100% in 2018.
Paraguay	In 2007, 40% reduction until 2012.	In 2018, 100% liberalization
Uruguay	In 2007, 50% reduction until 2013.	Yearly reduction for 8 years starting in 2005 and 100% in 2018.

RICE

PSD Table

Country Ecuador

Commodity Rice, Milled

(1000 HA)(1000 MT)(MT/HA)

	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Area Harvested	230	230	230	215	215	215	0	0	220
Beginning Stocks	157	72	157	127	76	127	127	61	17
Milled Production	490	490	490	480	480	480	0	0	495
Rough Production	790	790	790	774	774	774	0	0	798
Milling Rate (.9999)	6200	6200	6200	6200	6200	6200	0	0	6200
MY Imports	5	0	5	0	0	0	0	0	20
TY Imports	5	0	5	0	0	0	0	0	20
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	652	562	652	607	556	607	127	61	522
MY Exports	85	21	85	30	25	140	0	0	30
TY Exports	30	21	30	25	25	140	0	0	30
Total Consumption	440	465	440	450	470	450	0	0	455
Ending Stocks	127	76	127	127	61	17	0	0	47
Total Distribution	652	562	652	607	556	607	0	0	532
Yield (Rough)	3.4348	3.43478	3.43478	3.6	3.6	3.6	0	0	3.62727

Export Trade Matrix

Country Ecuador

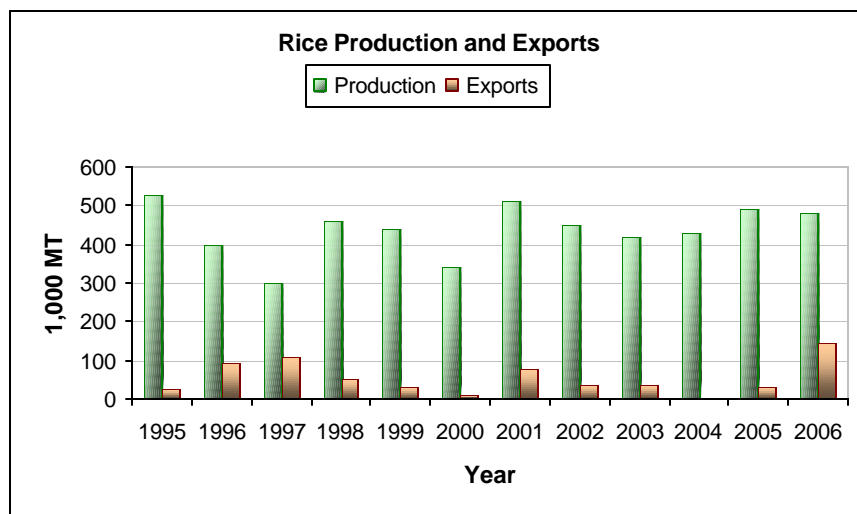
Commodity Rice, Milled

Time Period	Jan-Dec	Units:	MT
Exports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
Colombia	32733	Colombia	143793
Total for Others	32733		143793
Others not Listed	0		0
Grand Total	32733		143793

Production

In MY 2007 (January-December), rice production is expected to increase by 3 percent to 495,000 MT on 220,000 Ha. This increase will respond to very small current stocks of rice, due to unexpectedly large exports to Colombia throughout 2006 and farmers' expectations for continued exports and higher internal prices. The planting season started earlier this year, and Ecuador is expected to have a first harvest by the month of April.

Production of rice takes place in the lowlands of the coastal region, in areas that flood during the rainy season (November through April) and remain somewhat humid during the summer (May-September). Therefore, lack or excess of rainfalls are a determining factor for the volume of production. The largest harvest registers at the end of the rainy season (May through June). During the summer, in turn, only a third of the available area is planted because irrigation is expensive and limited to large farms and very specific areas. The majority (80 percent) of rice producers in Ecuador are poor, small farmers that own and plant less than 5 hectares with yields below 3 MT per hectare.



Consumption

Rice is a staple food of Ecuadorians for at least one meal a day and the majority of Ecuador's production is consumed locally. Monthly consumption is estimated at 38,000 MT per month, roughly 455,000 MT for MY 2007. Current per capita consumption is calculated at 40 kg per month, and this is explained by higher prices of alternative staples, such as bread or pasta. Rice is also replacing other traditional staples in the highlands, such as quinoa and even potatoes.

Rice sales are traditionally marketed through wholesalers in one hundred pound sacks (45 kg) or in small stores by the pound. Prices vary depending on the marketing channel. For example, the wholesale price of the 45 kg sacks is \$26, while sales by the pound can make the price grow to \$32 per sack. Approximately 80 percent of rice sales are made in sacks or by the pound. In addition, as a result of supermarket expansion in the main cities of Ecuador, purchasing habits have shifted towards buying branded bags of 2 or 5 kg. It is estimated that 15 to 20 percent of total rice sales are now made through supermarkets under these presentations.

Trade

Ecuador has imported minimal quantities of paddy rice in the last ten years since 1995, except in 1998 where weather-related losses caused imports to grow to 140,000 MT, mostly paddy. If Ecuador's production capacity were to continue as now, it is unlikely that Ecuador will need to import rice in the future.

Milled rice exports to Colombia surged in 2006 and reached 144,000 MT. This level of exports is the highest of the last 12 years, and is explained by two factors: increased demand of rice in the southern regions of Colombia and low prices paid by Ecuadorian intermediaries to the farmers during 2006. When this happens, both producers and traders in Ecuador prefer to export than to supply the local market. In 2006, Ecuador used a large portion of its production and most of its rice stocks to export to Colombia. Current small stocks made the price climb to \$396/MT to the farmer and may open an opportunity for rice imports during 2007.

Policy

Rice imports are a very sensitive issue in Ecuador. The Government of Ecuador is pushing a self-sufficiency program for rice by continuing to implement the Andean Price Band System (APBS) and by controlling imports. APBS floor and ceiling prices for the period April 2006-March 2007 have been set at \$254 and \$290 per MT. The final tariff during the majority of 2006 was 0%.

In addition, the Ministry of Agriculture's Consultative Committee on rice, consisting of producers, millers and government officials, decides on the timing and quantity of rice imports. The ad-valorem duty for paddy rice is set at 15 percent, and 20 percent for all other types of rice. Andean Community Nations (CAN) are assessed zero tariffs and are not assessed the Andean Price Band. Other Latin American countries have been granted ad-valorem tariff preferences under ALADI, but they still are assessed the Andean Price Band, as follows:

HTS	Description	U.S. & World	CAN	Peru	Chile	ALADI *				
						Paraguay	Uruguay	Argentina	Brazil	Mexico
10061090	Rice, Paddy	15%	Zero	Zero	15%	15%	7.5%	15%	15%	15%
10062000	Rice, Brown	20%	Zero	Zero	20%	20%	10%	20%	20%	20%
10063000	Rice, Milled	20%	Zero	Zero	20%	12%	10%	20%	20%	20%
10064000	Rice, Broken	20%	Zero	Zero	20%	20%	10%	20%	20%	20%

* ALADI stands for Latin American Integration Association.